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RUEAIIA/CIA WASHINGTON DC
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SIPDIS

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USDOC FOR USPTO - PAUL SALMON
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SUBJECT: NIGERIA: EU ECONOMIC PARTNERSHIP AGREEMENT RAISES CONCERNS

11. (U) Summary: The Manufacturers Association of Nigeria (MAN) and the Nigerian Economic Summit Group (NESG) held a seminar May 15-16 to determine under what conditions Nigeria might sign the European Union's (EU) Economic Partnership Agreement (EPA). Manufacturers contend that high overhead costs, resulting from failing power and transportation infrastructures, make them uncompetitive globally. They complain the EPA, which would lower tariffs on EU imports to Nigeria, would only exacerbate their problems. Stakeholders suggested the institution of a regional EPA fund might make the EPA more acceptable to Nigeria. End Summary.

Manufacturers, NESG Scrutinize EPA

12. (U) On May 15-16, the Manufacturers Association of Nigeria (MAN), the Nigerian Economic Summit Group (NESG), and the UK Department for International Development (DFID) organized a stakeholders' forum to deepen the private sector's knowledge of the Economic Partnership Agreement (EPA) proposed by the European Union (EU). MAN President Bashir Borodo said the forum was intended to give the private sector the opportunity to better articulate its position and to contribute to the formulation of a development-oriented EPA.

EPA Stalemate Hurts Exporters

13. (U) In June 2000, the EU and 77 African, Caribbean and Pacific (ACP) countries signed a Partnership Agreement in Cotonou to promote trade cooperation. To effectuate the agreement, the EU proposed an Economic Partnership Agreement (EPA). Despite the EU's hope for a conclusion of the negotiations by December 2007, talks dragged on largely because of West African reservations about the EPA's impact on regional development. The stalemate resulted in a return to the Generalized System of Preferences (GSP) on January 1, 2008, and the imposition of tariffs on some export items from Nigeria, Ivory Coast and Ghana. (Note: Under the Cotonou Agreement, the GSP was suspended during the EPA's negotiation process, and the EU and ACP countries agreed to maintain the Lom preferential system, which granted the latter unilateral preferential access to the EU market without reciprocity requirements, until the end of 2007. Under the Lom system, ACP exporters had substantial access to EU markets, and ACP countries retained the ability to protect their producers from highly competitive EU exporters. When the Lom IV Convention

expired in 2001, the EU requested for a World Trade Organization waiver under the Cotonou Agreement for the extension of unilateral preferences for ACP countries to continue until the originally intended deadline of December 2007. End Note) Subsequently, Ivory Coast and Ghana opted to conclude single country interim agreements with the EU in December 2007. Nigeria, emboldened by revenues from high oil prices, preferred to wait until a regional EPA could be agreed upon; this caused an outcry from Nigerian export-oriented companies.

¶4. (U) With already high overhead costs resulting from failing transport and power infrastructure, the higher tariffs pursuant to the EPA stalemate have added to the Nigerian manufacturers' costs, making their efforts even less competitive than those of their West African counterparts. The Cocoa Processors Association of Nigeria (COPAN) decried the EPA stalemate and claimed that higher tariffs have led to as much as a 20 percent production cut. COPAN said its members have lost 30,000 naira (USD 250) on every ton of cocoa exported to the EU from Nigeria since January 2008, which amounted to an industry-wide loss of about 585 million naira (USD 4.9 million) in the first quarter of 2008 alone.

Zero Tariffs: Hurt Manufacturers and Macroeconomy

¶5. (U) Nigerian manufacturers claim the elimination of duties and trade restrictive measures on at least 80 percent of goods from the EU, as proposed in the EPA, would kill Nigerian industries. Ken Ukaoha, President of the National Association of Nigerian Traders and member of the ECOWAS EPA negotiating team, also contended that placing zero tariffs on goods entering Nigeria from the EU will

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result in a huge loss of tariff income for the Government of Nigeria (GON) and an unrestricted influx of goods into an already flooded market. Ukaoha believes this will have macroeconomic consequences ranging from a hike in interest, exchange and inflation rates to a surge in unemployment.

Few Exports, Little Benefit to Nigeria from EPA

¶6. (U) Nigeria and other West African countries manufacture too few goods to take advantage of the zero tariffs on their exports to the EU under the EPA, shareholders claimed. The EPA proposes that 100 of ECOWAS goods could enter the EU duty free while only 80 percent of EU goods could enter ECOWAS duty free. Even with this asymmetric market access arrangement, Ukaoha believes the EU would derive more benefit from the partnership than the ECOWAS countries. Unrestricted market access is more beneficial for the EU because it has more finished goods to export to ECOWAS countries where demand for such goods is already high, he said.

EPA Could Cause MNC Factories to Close

¶7. (U) Dr. Aremu, CEO of Market Link Consults, stressed that most multinational corporations (MNCs) established a physical presence in Nigeria to avoid paying the Government of Nigeria (GON) high tariffs on their goods. The zero tariff provision in the EPA, if implemented, would obviate the need for European MNCs to locate in Nigeria. Aremu predicted some MNCs may even be compelled to close down their existing West African factories, a move that would result in massive job losses.

EPA Could Increase Smuggling into Nigeria

¶8. (U) A representative of the Nigerian Customs Service said the single country interim agreements between the EU and Ghana and Ivory Coast, which are expected to be signed in June 2008, could lead to an increase in the smuggling of zero tariff EU goods into Nigeria from these countries. Should other West African countries sign the EPA without Nigeria, smuggling activities and the dumping of goods might increase even more, he forewarned.

Regional EPA Fund Could Promote EPA

¶9. (U) Chibuzon Nwoke of the Nigerian Institute of International Affairs (NIIA) said the onus is on the EU to improve benefits for ECOWAS countries under the EPA since they are the junior partner in the arrangement. He stressed the need to shift the EPA's focus from trade-for-trade to trade-for-development. He advocated the inclusion of initiatives that would help reduce poverty, promote the sustainable development of West African countries, and facilitate their gradual integration into world trade. The implementation of a fund to support export development and compensate West African countries' for the loss of tariff revenue, employment, and production arising from adoption of the EPA would improve the EPA's chance at success, Nwoke said.

West Africa Should Use EPA to Guide Development

¶10. (U) Professor Mike Kwanashie of the University of Zaria implored Nigeria and ECOWAS to use the EPA as a roadmap to develop and become more competitive in global trade. Governments should study the EPA's impact on each sector of their economies and assess the available local capacity in those sectors before deciding on the extent of openness to offer the EU, he urged.

¶11. (U) Comment: Because Nigerian companies are not internationally competitive, Nigerian manufacturers are concerned that dropping tariffs would hurt them, a familiar refrain as well in US-Nigeria negotiations on tariff reductions and import bans. End comment.

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¶12. (U) This cable has been cleared by Embassy Abuja.

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